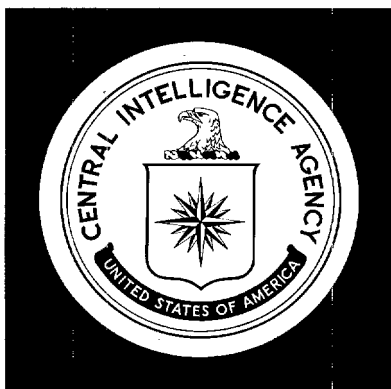


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DIRECTORATE OF
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Central Intelligence Bulletin

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No. 0306/71
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Central Intelligence Bulletin

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INDIA-PAKISTAN: Efforts to consolidate government control continue in both Bangla Desh and Pakistan.

The Bangla Desh government finally arrived in Dacca yesterday. Acting President Nazrul Islam told the large crowd at the airport that Bangla Desh would never give up its independence, but he warned that freedom depended on overcoming poverty. He said the basic objectives of the country should be "democracy, secularism and socialism and a nonaligned policy in foreign affairs." A Bangla Desh spokesman has announced that the Bengali leaders will soon "settle down" to their "huge task," but the government has not yet been officially installed.

In the meantime, the Indian Army still appears to be the main force for stability in the new country. Dacca is rapidly returning to normal.

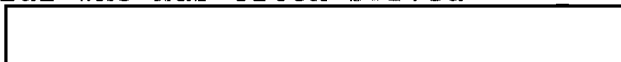
In Pakistan, President Bhutto has ousted more appointees of former president Yahya. Yesterday, he dismissed the four provincial governors, the head of the press trust--which controls most of Pakistan's major newspapers--and the governor of the State Bank of Pakistan.

The three new provincial governors announced so far are all members of Bhutto's Pakistan People's Party (PPP)--one is Bhutto's cousin--although the PPP has little following in one of the provinces. To head the State Bank, Bhutto chose an apparently apolitical technician, but the press trust is to be managed by the editor of a left-wing Karachi news weekly.



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The full cabinet has yet to be announced, but Bhutto has added interior and inter-province co-operation to the defense and foreign affairs portfolios he will hold himself. The information minister will be a PPP official who has often served as the party's spokesman.



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INDIA - PAKISTAN - BANGLA DESH: The Indian economy has suffered only slightly from the war with Pakistan. Islamabad must face up to many critical economic problems, but its economy is essentially viable and has suffered relatively little physical damage. Bangla Desh, an economic disaster area even before the trouble began, has experienced continuing devastation throughout the year and requires substantial foreign aid.

New Delhi already has acted to cope with the economic demands of the war. New taxes, including a 2.5-percent corporate income tax surcharge, have been introduced, and the government was empowered to impose controls on prices and distribution of essential commodities. India's only major new economic problem is the suspension of US and Japanese foreign aid, and the full impact of this has not yet been felt.

Islamabad's major economic problems have been exacerbated. The two-week war resulted in the destruction of a substantial part of Pakistan's modern weapons inventory and heavy damage to its major port and petroleum facilities at Karachi. The major problems, however, resulted from the eight-month civil war and include a sharp step-up in military spending, alienation of foreign aid donors, and a break in economic ties with the former East wing.

If political stability can be restored and substantial new foreign aid commitments obtained, Pakistan has a good chance of quickly resuming rapid economic progress. It has a strong modern agricultural sector and an experienced and sophisticated entrepreneurial class. Islamabad has demonstrated throughout 1971 that, by expanding its foreign sales, it could withstand the loss of at least part of its markets in the East.

Bangla Desh will require substantial foreign aid for reconstruction and rehabilitation before normal economic activity can resume. The transportation and distribution systems must be restored

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if the population in food-deficit areas is to be adequately fed. The food problem will be exacerbated as millions of Bengali refugees in India return to their homeland. Indian and other foreign administrators and technicians will be needed to restore a semblance of order to daily economic life. The small modern industrial and banking sectors were previously run by West Pakistanis, some of whom must now be replaced. The one bright spot in Bangla Desh's economic future is the restoration of its natural trade ties with India, which may more than offset its loss of markets in West Pakistan.

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SOUTH KOREA: President Pak is moving forcefully to tighten his grip on the nation in the wake of the 6 December declaration of an emergency.

The government has announced that it intends to push through the legislature a bill which gives the President extraordinary powers over the economy, manpower, land use, and the press under emergency conditions. The bill appears to go beyond the limits of presidential authority set forth in the constitution and to set the stage for greater direct presidential control.

The government majority in the Assembly will be able to engineer passage of this bill before the current session ends on 29 December. Although powerless to prevent the government's action, the opposition New Democratic Party (NDP) appears determined to make the effort as difficult as possible. NDP assemblymen seized the rostrum at the Assembly on the 22nd, protesting that the bill would introduce "supraconstitutional one-man rule." NDP spokesmen have stated they will press their opposition to the limit and that NDP representatives in the Assembly will resign if the bill is passed.

Pak need not move against the opposition to secure passage of the bill. But his strong response to recent challenges to his political power suggests that he may over-react in this instance as well by taking measures to curb the NDP or abridge the power of the Assembly.

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[LAOS: Prime Minister Souvanna appears to be in no mood to make concessions to the Communists despite the reversals suffered by government forces on the Plaine des Jarres.

On 21 December Souvanna received another tough letter from Lao Communist leader Souphanouvong. The letter allegedly was drafted on 16 December, just before the North Vietnamese offensive on the Plaine was launched. Souphanouvong promised bitter defeats would be forthcoming--both in the Plaine and in south Laos--if the government did not accept the Communist demand for a complete bombing halt. The Soviet ambassador in Vientiane also urged Souvanna to accede to the demands.

Souvanna firmly rejected any bombing halt without "matching concessions" and adequate guarantees from the Communist side--both of which are unlikely while the enemy offensive is in full swing. The prime minister instead asserted that Laos would defend itself with all available means, and he repeatedly stressed to US Embassy officers the need for increased US air support.

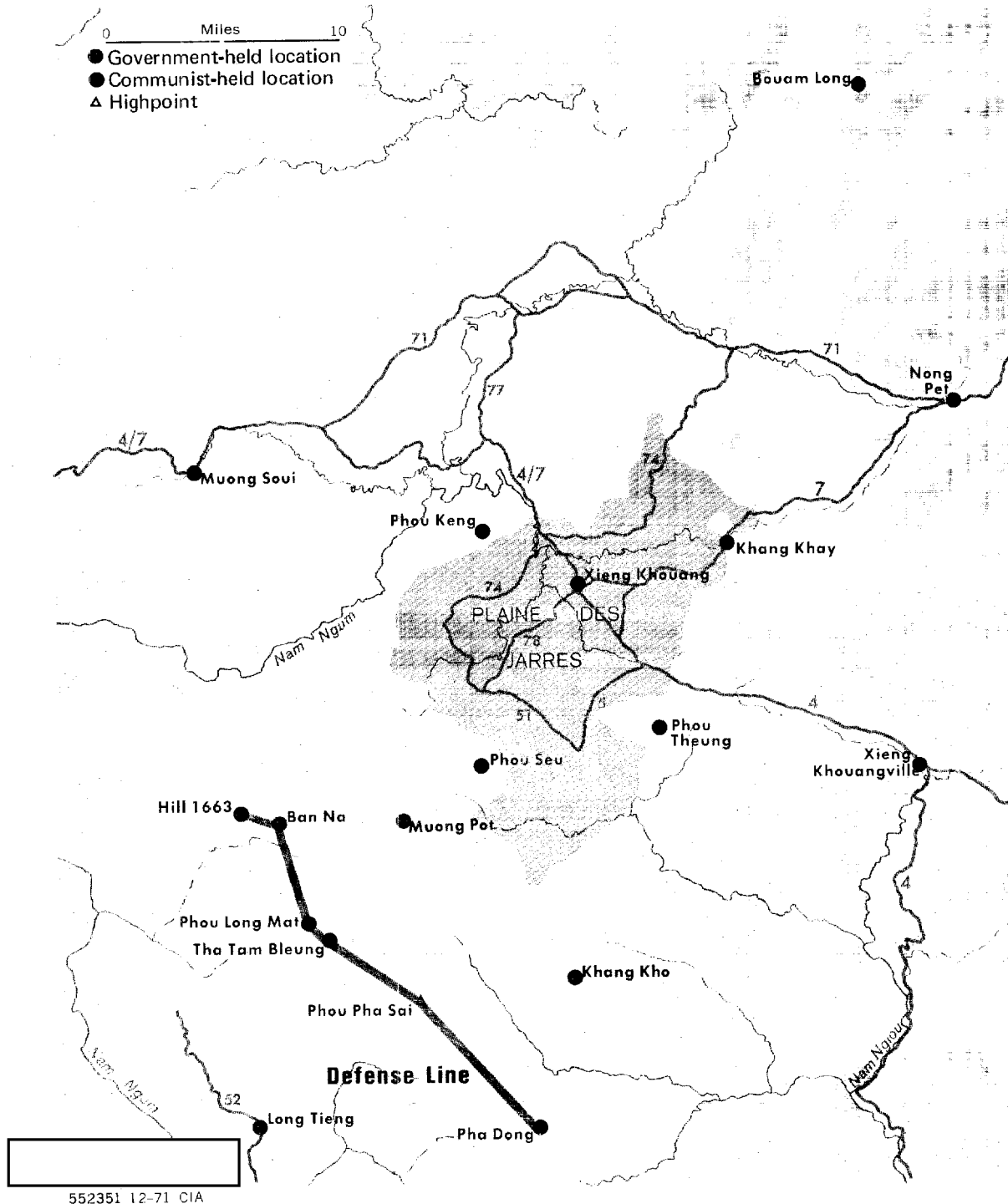
The Communists probably have little expectation that Souvanna will capitulate to their demands at this time. The letter is designed in part to provide a justification for their present offensive. Souvanna has never shown himself willing to bow to Communist military pressure in the past, and this seems to be the case in this instance. Despite the military reverses, a tough line by Souvanna will probably be supported by most of the powerful political figures in the country. In past years, battlefield setbacks have led to rightist criticism of Souvanna's policy of neutrality rather than of his refusal to be more conciliatory in his dealings with the Communists. **]**

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LAOS: PLAINE DES JARRES AREA



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The tactical situation has changed little during the past 24 hours. Irregular units retreating from the Plaine are beginning to regroup along the proposed defensive line between Ban Na and Pha Dong. Meo civilians have withdrawn from the Long Tieng Valley and are moving south toward refugee centers. There is no evidence of panic among the people or the troops.

It is not clear how far the North Vietnamese have penetrated south and west of the Plaine. The Communists may intend to move against Ban Na, which was the focal point of their offensive last dry season. Bad weather has hindered aerial reconnaissance, and the irregular troops are not yet well enough reorganized for reconnaissance patrolling. The North Vietnamese may be regrouping and resupplying their forces, but they appear to have kept at least two of their eight infantry regiments in reserve and probably would have fresh troops available if they want to move westward quickly.

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Christmas Cease-fire 1971

Communist

Begins

Ends

Saigon

Dec. 24-0100

Dec. 27-0100

Washington

Dec. 23-1200

Dec. 26-1200

Allied

Begins

Ends

Dec. 24-1800

Dec. 25-1800

Dec. 24-0500

Dec. 25-0500

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SOUTH VIETNAM: The Communists' self-imposed three-day Christmas cease-fire begins at noon today, Washington time; the allied 24-hour military stand-down will begin early tomorrow.

As usual the Communists will probably take advantage of the holiday cease-fire periods to re-supply their forces within South Vietnam.

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Fighting is likely to erupt in some areas upon the conclusion of the one-day allied truce period, largely in response to allied operations. There are also indications that the enemy will again step up shellings and other harassment and terrorist actions between the Christmas and New Year holidays.

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YUGOSLAVIA: Forced resignations of party and government officials and tightened police restraints over the student community in Croatia are designed to ensure greater control by the republic party leadership.

Yesterday, Croatian Premier Dragutin Haramija and three other top republic government leaders joined the steadily growing list of party officials--estimated to be at least 75--who have already resigned. The delay in Haramija's resignation--eight days after his failure to support criticism of the ousted party leaders--is another indication of the dissension and lack of discipline in Croatia's leadership ranks. In addition, the editor of one of Croatia's major dailies, Vjesnik, has resigned, and press reports indicate the editor of Vjesnik u Srediju and the director of Zagreb radio-TV will follow suit.

Security officials have adopted a no-nonsense attitude. Tuesday they raided a youth hostel and detained 352 people after making other arrests at a street demonstration. Workers returning home from the West for the holidays are being searched for arms and propaganda, and at least 20 weapons were seized at one border station. Midnight Christmas Eve mass has been canceled in Zagreb, presumably in an attempt to keep crowds from gathering in the center of the city.

President Tito has boosted Croatia's new leadership by commending it for "resolutely coming to grips with the class enemy." Speaking in the Bosnian town of Rudo on Army Day, Tito blistered regional nationalism and reaffirmed the federal party's predominance in Yugoslavia's political life.

The purge and Tito's reaffirmation of party control have met with tempered approval in Moscow. The Kremlin apparently is taking some pleasure in

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quoting Tito's charges that the Yugoslav party had become too liberal. Elsewhere in Eastern Europe, official reactions to the developments in Yugoslavia range from Romania's factual excerpts of Tito's speeches to the critical "we told you so" of the Czechoslovak press.

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CHILE: Both government and opposition forces are continuing to take political initiatives through the holidays, a time when political action is virtually unheard of in Latin America.

The Christian Democrats announced yesterday that they will launch impeachment proceedings against Minister of the Interior Toha on 24 December. At the same time, however, they have virtually killed the effort of the conservative National Party to impeach Economy Minister Vuskovic by deciding not to support it. Some Christian Democrats argue that further cooperation with the National Party threatens the party's appeal to the center and left.

Meanwhile, hard-line Socialists and their allies are publicly insisting that Allende's Popular Unity coalition take the offensive against its "counter-revolutionary" opposition. These extremists may be the moving force behind plans reported in the press for a "general assembly" of popular forces next week and for terrorist attacks in upper-class residential areas of Santiago. Government coalition leaders apparently are stung by the modest turnout for their rally on 20 December and are looking for some way to regain the initiative, possibly a broadening and strengthening of the coalition into a more cohesive force. The more cautious Communists and Allende himself still hope to avoid a showdown and continue to make overtures to leftist Christian Democrats for a modus vivendi.

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VENEZUELA: Foreign oil companies in Caracas will face a profit squeeze in 1972 because of new financial and regulatory actions by the government.

The Caldera government has decided to raise 1972 tax reference values, which are used to calculate company income taxes, by an average of 26 cents per barrel. It had been considering a much smaller increase, while opposition political parties have been pressing for a more demanding policy. Caldera apparently felt it necessary to yield to these demands in order to secure congressional passage of his 1972 budget. At the same time, the government announced a two-percent revaluation relative to the dollar, thereby increasing the dollar cost of the oil companies' local expenditures. These actions followed by a few days enactment of a decree giving the government authority to control oil production levels, a move the companies fear may presage imposition of minimum production quotas.

It will be difficult for the oil companies to offset increased taxes and production costs by raising export prices at a time when Venezuelan oil already is encountering stiffer competition because growth in foreign demand has slowed. Moreover, any attempts by the companies to shift to alternate sources of crude oil will be stymied if the government imposes production quotas.

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BELGIUM: Outgoing Prime Minister Gaston Eyskens has abandoned his attempt to form a cabinet composed of Socialists and Social Christians, and the 46-day-old government crisis has deepened.

Eyskens, faced with a resurgence of old ideological differences between the two parties on educational policy, asked King Baudouin on 22 December to relieve him of his task as government formateur. It will be difficult to find another Belgian politician possessing Eyskens' prestige and political skill. Eyskens' party, the Social Christians, is apparently prepared to put forward another candidate. Current speculation centers on the influential Flemish politician Jozef de Saeger.

Eyskens last week drafted a broadly worded compromise in an attempt to overcome inter-party quarreling. The primary difference, which the compromise could not bridge, concerns the renewal of the School Pact of 1958 providing equal funding for public and free (Catholic) schools. Flemish Social Christians are seeking substantial increases in subsidies for Catholic school salaries and construction, while the Socialists want the same for the public school system.

The Flemish Social Christians, moreover, want to give the new French- and Flemish-speaking cultural councils broad powers in the field of education. The Socialists, fearing Catholic predominance in the Flemish council, are resisting this demand.

The two parties still remain the most likely components of a new government, but the formation of a cabinet may now be considerably delayed, perhaps until February.



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MALAYSIA: The government is reportedly contemplating new steps toward "Malayization" of the economy, now still largely controlled by local Chinese interests.

The initial move is expected to be the establishment of state control over the rubber trade, presently dominated by Chinese middlemen. Malay small holders feel victimized by the "alien" entrepreneurs. The government has already designated Pernas, its state trading corporation, as the exclusive agent for all imports from Communist China and Chinese purchases of Malaysian rubber. New plans, if implemented, would establish Pernas as the government's purchasing authority, buying directly from the growers at a fixed price.

The government's much-publicized program for redressing the economic imbalance between the nation's ethnic groups has threatened to create a widening gap between inflated hopes about increasing Malay participation and the obvious fact of continued Chinese dominance. Various encouragements already offered the Malays have proven insufficient to overcome the immense advantages which the Chinese enjoy by virtue of their long-established contacts, years of experience, and financial power.

The government initially tried to bypass the Chinese by establishing the state trading corporation and staffing it with Malay bureaucrats. Pernas, however, seems unable to lift itself from the bureaucratic doldrums and compete with the private dealers on equal terms. A recent cabinet reshuffle signals another effort to upgrade Pernas. A special adviser to the prime minister has been appointed to coordinate the activities of state agencies, specifically Pernas.

The government now apparently believes it must remove some other commercial activities from the private sector. New steps in this direction will have a psychological as well as economic impact on

the Chinese merchants, who have long feared that the government may decide that nationalization of commerce and industry is the only way to assure the Malays an equal share in the economy. If sufficiently alarmed, the Chinese might react by withdrawing their money and reinvesting it outside Malaysia, which would be a severe blow to the economic health of the country.

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WEST GERMANY: The central bank yesterday cut its discount rate from 4.5 to four percent. It also reduced the rate for loans secured by collateral from 5.5 to five percent and reduced minimum reserve requirements. These moves are primarily designed to forestall a sharp decline in domestic bank liquidity in the wake of an expected large outflow of short-term foreign funds following the mark revaluation of 13.6 percent in terms of the US dollar. Cheaper money should also provide a mild stimulus to the German economy, which has shown increasing signs of "stagflation" in recent months and faces the danger of recession in 1972.

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YUGOSLAVIA-USSR: The head of the Yugoslav Investment Bank has confirmed that the Soviets have offered credits for Yugoslav mining, metallurgical, and power projects. These credits were discussed in October in Moscow, and Yugoslavia spelled out its requirements for economic assistance during Soviet Gosplan director Baybakov's current visit to Yugoslavia. Details of the credits now must be arranged, and final contracts should be concluded early in 1972. The USSR offer includes delivery of raw materials and semi-finished goods which can be sold in Yugoslavia to generate funds to finance local construction costs, as well as shipments of Soviet machinery and equipment. Credit repayment terms are liberal; they provide a two-year grace period and repayment in commodities at a two to three-percent rate of interest over a ten-year period.

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ZAMBIA: This week's parliamentary by-elections resulted in a victory for President Kaunda's United National Independence Party (UNIP) over the country's two opposition parties. UNIP took four out of five seats contested by the new United Progressive Party (UPP), which represents northern tribal interests. Simon Kapwepwe, head of the UPP and once Zambia's second most powerful politician, won his party's lone seat by a small margin. UNIP also made a strong showing against the African National Congress (ANC) by recapturing at least two seats in western Zambia. The government did poorly only in the ANC traditional area of support in southern Zambia. Kaunda now must decide whether to follow through on recent hints that he may declare a one-party state to protect the government against future challenges by parties which are tribally based.

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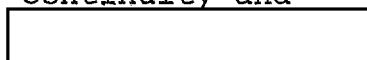
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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 22 December 1971 approved the following national intelligence estimate:

NIE 36.1-71

"Egypt: Continuity and
Change"



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